Telcordia Technologies
Performance from Experience

Matthew J. Desch
Chief Executive Officer

Telcordia Technologies, Inc.
445 South Street MCC-1A370G
Morristown, NJ 07960-6438
Voice: (973) 829-5300
Email: mdesch@telcordia.com

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VIA FACSIMILE

October 1, 2002

The Honorable Michael K. Powell
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Written Ex Parte Communication, Wireline Broadband Issues
(CC Docket Nos. 01-338, 02-33)

Dear Chairman Powell:

I am writing as the new CEO of Telcordia Technologies, which as you know provides operations support systems as well as other software systems, engineering, consulting, and training support to the communications industry both domestically and internationally. While a newcomer to Telcordia, I count myself as a veteran in the telecommunications industry, having spent 22 years both in Nortel Networks and what is now Lucent. We met several times when I was leading Nortel Networks' global wireless infrastructure business prior to my departure from there in early 2000.

Telcordia values its reputation as a vendor-neutral company and as a company that formulates judgments based on facts and research. We also provide services to a wide array of providers, including cable, wireless and satellite providers, as well as ILECs, CLECs and long distance companies. Therefore, I do not make the following observations lightly. However, I have become extremely concerned about the declining economic state of the telecommunications industry in this country and about the role that current regulatory policy is playing in that decline. I know you share my concern over the effect that the spate of bankruptcies, massive lay-offs, and general market implosion in telecommunications is having on the nation – both in terms of our economy and the protection of our critical infrastructure. While no incumbent local exchange carrier (ILEC) has yet to declare bankruptcy, the other factors signaling decline are certainly evident, and research conducted by Telcordia and others indicates that the ILECs' financial picture is trending down, not up.

In April of 2002 – before the worst of the economic news in the telecom sector had surfaced -- Telcordia made the following findings:

- Wireline telephony faces significant competition due to technology displacement.
- The ILECs' revenue is dropping steadily, and in order to become profitable again, they must dramatically drive costs out of the wireline side of the business and find new revenue opportunities.
- While this revenue migration holds opportunities for the sector overall, it will be significantly harder for ILECs to realize the necessary market share of these competitive services to attain their necessary revenue growth.
- In order to compete and to grow (and even maintain) revenues, the ILECs need to make significant financial investments to enable them to provide new services to customers, particularly broadband services.

The study in question stops short of taking the next step – which is predicting whether or not the ILECs will be able to make the necessary financial investments – but there is now a clear answer to that. They will not, as there is no incentive to make such investments in new infrastructure when under current regulatory models, recovery of the costs is so uncertain. DSL -- the ILECs' primary solution to competition for the broadband customer – has produced low revenues and no profits to date. With the regulatory treatment of DSL and any new broadband offering up in the air, with the prospect of having to share any new broadband build-out with competitors at below-market rates, and with margins already low, the risks of investment quickly start to outweigh the rewards.

It also does not seem to be sound economic policy **in a competitive broadband environment** to hold one player down while the others are not similarly treated. And there is no doubt that broadband is already a competitive marketplace – one that I only see growing in terms of the types of providers that will play. In this type of competitive landscape, the nation's regulatory policies should not create an imbalance in the economic infrastructure. It is not good for consumers, it is not good for the health of the overall industry, and it is not good for protecting the critical infrastructure of the nation, where maintaining healthy competitors with redundant networks is to be encouraged, not discouraged.

A few years ago I would have thought it unlikely that the nation's telecommunications industry could be facing such threatening financial conditions. Forward-looking research suggests, however, that the entire industry still faces significant risks, and that ILECS – far from being immune – are particularly at risk for business failures. Our research shows that without new service revenue, ILECs will face a gap in revenue that grows to $45 billion annually by 2007.

Given these kinds of statistics, I don't believe we can afford to maintain the status quo much longer. Our regulatory policies must move toward parity for all players - not only to provide incentives for broadband build-out across the country, but also to forestall further economic decline in a sector critically important to the economy and the nation. I urge the Commission to take the following steps: act quickly on the Triennial Review; determine that ILECs are not required to provide unbundled access to new, last-mile broadband facilities; and adopt policies that spur investment.

I look forward to discussing these and other issues with you one of these days in person. Please feel free to call on me for any help that either I personally, or Telcordia, can provide.

Consistent with the Commission's Rules, this document is also being filed electronically in each of the above-referenced dockets.

Sincerely,

Matthew J. Desch
CEO

cc: Hon. Kathleen Q. Abernathy
Hon. Michael J. Copps
Hon. Kevin J. Martin
William Maher
Marlene H. Dortch, FCC Secretary (via ECFS